FUTURE OF THE U.S. SUGAR INDUSTRY IN A CHANGING POLICY ENVIRONMENT

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The topic, prospects for change in world sweetener and trade and trade rule, is very apropos. If there is one constant in the sweetener business, it's change. For the best part of the past 70 years, U.S. producers have been isolated from the so-called world market. During this time, substantial changes have occurred to the domestic sugar program and the industry.

Domestic policy has evolved from a very structured system under the Jones Costigan Sugar Act. The industry endured periods without domestic policy when domestic prices went through boom-bust cycles. There were interim stopgap programs to keep sugar producers in business. Since 1985, there have been various scenarios of a USDA non-recourse loan program, and the government has moved the industry toward additional world trade through the WTO and NAFTA.

In reaction to government action toward more open markets, U.S. producers have put into action one of the greatest efforts to streamline the sugar industry. The beet co-ops have installed massive storage buildings to protect a large portion of their beets waiting for processing. They've expanded acreage and production facilities for economy of scale.

Beet growers in Idaho have purchased their processor to determine their own destiny. Growers in Washington State started their own cooperative to increase their cropping options. Florida cane millers have installed refineries on a few of their cane mills or purchased stand-alone refineries to provide an added value to their raw product. A Florida cane producer and a beet co-op entered into a joint marketing venture.

Imperial Sugar Company and their subsidiaries purchased or combined operations of former competitors to reduce costs and increase volume of products. Today, four major sellers market 85 percent of the sugar in the U.S. All these changes have come with costs attached. The industry is highly leveraged. It was projected that the savings and synergisms of the combined operations would be greater than the massive debt incurred. I'm not sure that dream is being realized, especially in light of the recent low sugar prices.

I believe there is a trend toward higher yields in Florida, Louisiana, and some beet areas. I know California producers are setting new standards for yield and sugar content. In fact, for two years in a row, world record beet crops have been produced in California's Imperial Valley.

There's been pain in the industry. I come from a state where disease, competitive crops, and urbanization have taken a toll on beet production. Today, only the efficient remain, and they are in jeopardy. The Hawaiian industry is only one-third of its former size, and the beet processing industry in Texas is just a memory.

The U.S. farm economy is in chaos, and it is reflected in the sugar business. Since 1985, U.S. refined sugar prices have moved based on market forces or government edict, while the basic loan rate has been unchanged at 18 cents a pound raw value. Domestic raw cane sugar prices only moved in a range of about two cents a pound until this past fall when the market experienced nearly a six cents per pound drop when an oversupply of raw sugar in the U.S. became evident. This Christmas, beet growers learned that the domestic refined price had dropped to the lowest levels since the late 70's and mid 80's. The potential large U.S. production coupled with static consumption was the major cause, but the uncertainties about Mexico's access to the U.S. market, leaks in our border protection, and other governmental actions played a role in the price drop.

Several weeks ago, I was contacted by a sugar economist who does production estimates. He found in his nationwide survey that growers were not backing off on their planting intentions for beets or cane, even with the low prices.

When I visit with growers, their reaction is: I have no cropping alternatives. Either I'll drop my costs to the bare bones and hope to get by this year, or with the new varieties, improved agronomic techniques, and other potential for improved yields, I'll put my beets on the better soils and try to offset the price decline with higher production. Growers are the eternal optimists.

If their bankers will stay with them, growers can try to hold their operations together, but frankly, the growers and industry will suffer. Growers will be living off their equity, hoping for price improvements down the road. Growers will need continual government aid; I've heard this past year that Uncle Sam has infused 15 billion dollars into the farm economy. If commodity prices do not improve, agriculture will need similar help in 2001 or there still will be massive financial problems on the farms across the U.S.

The sugar industry has about three and a half years on the current sugar policy. As it now stands, it expires with the 2002/2003 fiscal year. There is discussion that Congress will revisit the farm legislation this session. To me, it seems a given, with agriculture's financial problems. Will they make sweeping changes? Probably not. I believe the economy is strong enough that the government can afford to make cash infusions into the agriculture sector in an attempt to get through this low price cycle.

Currently, the entire sugar industry's attention is on low prices. I noted in a recent sugar publication that U.S. Sugar Corp. has set up a Profit Enhancement Council to develop ways to cut costs. We're all looking at ways to cut costs. American Crystal has threatened to forfeit sugar, and we hear murmurs of forfeiture from some cane producers. We're all waiting to see when sugar is forfeited under the loan program and, when sugar is forfeited, how the government will manage their inventory.

The rules the industry plays under have changed because of the trade agreements of NAFTA and WTO. In the past, domestic growth was offset by reductions in imports. Today, producers are caught in a squeeze between high production, static low consumption, and a required import. The government has been unwilling to plug border leakages, so unless Mother Nature interacts, we are in for a long siege of low prices.

The U.S. must continue to protect domestic sugar producers from unfair trade practices around the sugar world. No one can produce sugar for the current world price unless they receive governmental help. I don't believe that U.S. trade policy can redirect EU sugar subsidies, convince the Mexican government to shut down inefficient plants, influence Brazil's ethanol program, or make Third World producers meet U.S. standards in labor and environment.

The form of the future sugar policy is up to some conjecture. I certainly have more questions than answers. Can we stay the course with some modification to the current loan program? Will trade laws allow for U.S. producers to have a sugar program similar to the E.C. with domestic quotas and support coupled with provisions for export of U.S. production at world prices? Can there be some type of target price with payments to growers if the market does not meet the target? I certainly don't have the answers, but the industry will be struggling with these issues as current legislation ends.

It's ironic that in November of last year John Love asked me to participate in this forum. I was hesitant at first, but after some thought, I decided to discuss this issue from a California perspective. Yields were up, and grower confidence in sugar beets was on the mend. What a story. Well, by now, I presume most of you have heard that because of balance sheet problems, Imperial Sugar Company has decided to divest themselves of the Tracy and Woodland plants, not because they're inefficient, but because the land value is greater in reducing the company debt than the factory's operations are in contributing to profitability of the company. They've offered the plants to growers, and our industry is trying, even in the current ag depression, to see if some grower ownership of these facilities might be possible. If we're unsuccessful, it should help the short-term U.S. price situation.

To sum up my remarks, unfortunately, I believe domestic sugar production facilities will close as the industry faces a changing policy environment.